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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 9, 1999

PETITION OF

AQUASOURCE UTILITY, INC.,

LAND'OR UTILITY COMPANY, INC.,

and

CASE NO. PUA990030

CLAY P. HERRON

For approval for AquaSource to acquire
control of Land'Or Utility Company, Inc.,
and approval of affiliate transactions

ORDER GRANTING APPROVAL

On May 17, 1999, AquaSource Utility, Inc. ("AquaSource," the "Company"), Land'Or Utility Company, Inc. ("Land'Or"), and Clay P. Herron ("Mr. Herron") (collectively, the "Petitioners") filed a petition under the Utility Transfers Act requesting approval for AquaSource to acquire from Mr. Herron all the stock of Land'Or. AquaSource also petitioned under the Affiliates Act for approval of, or exemption from, the filing and prior approval requirements of its affiliate arrangements with Land'Or.

Land'Or Utility Company, Inc., is a Virginia small water and sewer company governed by Chapter 10.2:1 of Title 56 of the Code of Virginia and provides water and sewer service to households in Caroline County, Virginia. However, Land'Or is subject to the Affiliates Act, pursuant to § 56-265.13:3 of the Code of Virginia, as it represents that it has gross annual revenues in excess of \$500,000. Land'Or currently serves over 650 customers and approximately 1,500 additional lots. Clay P. Herron currently owns all of the issued and outstanding stock of Land'Or.

AquaSource is a wholly owned subsidiary of AquaSource, Inc., which is in turn a wholly owned subsidiary of DQE, Inc., a publicly traded utility holding company. In addition to water and wastewater utilities, AquaSource and AquaSource, Inc., also own non-regulated water and wastewater related businesses such as construction and engineering companies, water and wastewater system leasing and fabrication businesses, and contract operation services for other owners of water and wastewater facilities.

AquaSource and AquaSource, Inc. (the "Companies"), provide potable water and wastewater services to more than 300,000 customers and are currently negotiating to acquire numerous additional water utilities across the country, including Virginia. AquaSource is headquartered in Houston, Texas, and has several other offices in various areas of the country.

DQE, Inc., the parent company of AquaSource, Inc., is a Pennsylvania based energy service company and parent of Duquesne Light Company. DQE, Inc., has assets of more than \$4.6 billion and annual revenues in excess of \$1.2 billion. AquaSource and AquaSource, Inc., report their financial data on a consolidated basis with DQE, Inc.

AquaSource proposes to purchase, and Mr. Herron proposes to sell to AquaSource all of the stock of Land'Or. As stated in the petition, upon consummation of the transaction, Land'Or will become a wholly owned subsidiary of AquaSource and will continue to operate as a separate Virginia small water and sewer company. As agreed by AquaSource and Mr. Herron, AquaSource will pay Mr. Herron \$1,189,811.00 in cash, as adjusted pursuant to the Stock Purchase Agreement, for Land'Or's stock.

AquaSource also proposes to provide to Land'Or payroll administration and administration of employee benefits and insurance programs. Such services will be provided in order to cover Land'Or's employees under the same programs covering other AquaSource personnel. AquaSource states that the proposed action will make AquaSource's employee benefits programs available to Land'Or's employees with no impact on Land'Or's customers as these services will be provided at aggregate cost.

AquaSource represents that adequate service at just and reasonable rates will not be impaired or jeopardized by the proposed transfer of control.

AquaSource further represents that it plans to provide system improvements, without change in the current water and sewer rates, to Land'Or's customers. AquaSource states that, as a result of the acquisition, Land'Or will have access to substantial operating and financial resources, which would otherwise be unavailable under Land'Or's current ownership.

THE COMMISSION, upon consideration of the petition and representations of the Petitioners and having been advised by its Staff, is of the opinion and finds that the above-described transfer of control will neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates and should be approved. The Commission further finds the affiliate agreement to be in the public interest and should, therefore, be approved. Accordingly,

IT IS ORDERED THAT:

1) Pursuant to §§ 56-88.1 and 56-90 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to acquire control of Land'Or Utility Company, Inc., under the terms and conditions and at the price of \$1,189,811.00, as adjusted pursuant to the Stock Purchase Agreement described herein.

2) Pursuant to § 56-77 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to provide services to Land'Or Utility Company, Inc., under the terms and conditions described herein.

- 3) The approval granted herein shall have no ratemaking implications.
- 4) Should there be any changes in the terms and conditions of the affiliate agreement between AquaSource and Land'Or from those contained herein, Commission approval shall be required for such changes.
- 5) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not such affiliate is regulated by the Commission.
- 6) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.
- 7) Any excess earnings resulting from operational efficiencies or cost reductions shall be at issue in any filings or proceedings addressing rates.
- 8) The approval granted herein shall in no way be deemed to include the recovery of any portion of the consideration paid in excess of the rate base, at the time of closing, through either an acquisition adjustment or any other type of adjustment for ratemaking purposes.
- 9) Land'Or shall file a Report of Action with the Commission on or before September 30, 1999. Such report shall contain the date of transfer, the sales price, and all accounting entries reflecting the transfer.
- 10) Land'Or shall file an Annual Report of Affiliate Transactions with the Director of Public Utility Accounting of the Commission by no later than May 1 of each year beginning May 1, 2000, subject to extension by the Director of

Public Utility Accounting of the Commission. Information to be included in the Report is as follows: 1) affiliate's name; 2) description of each affiliate arrangement/agreement; 3) dates of each affiliate arrangement/agreement; and 4) total dollar amount of each affiliate arrangement/agreement. The report shall include all agreements with affiliates regardless of amount involved and shall supersede all other affiliate reporting requirements previously ordered.

11) Pursuant to Case No. PUE940081, any portion of Land'Or's water and sewer connection fees collected in excess of its actual cost shall be set aside in separate water and sewer escrow accounts to be used only for capital improvements.

12) Pursuant to Case No. PUE940081, Land'Or shall file with the Commission's Division of Public Utility Accounting, on or before March 31, an annual statement detailing the activity of each escrow account for the previous calendar year and shall maintain sufficient detailed records to support such statement.

13) There appearing nothing further to be done in this matter it is hereby dismissed.